



First Time Homebuyer Packet



By: Scott Gormley
Broker/Owner

Direct: 530.592.8362

Email: Scott@OakValleyMortgage.com

Blog: <http://activerain.com/blogs/lendingmagician>

Oak Valley Mortgage



Mortgage FAQ'S

- 1.) How do I know how much house I can afford?
- 2.) What is the difference between a fixed-rate loan and an adjustable-rate loan?
- 3.) How is an index and margin used in an ARM?
- 4.) How do I know which type of mortgage is best for me?
- 5.) What does my mortgage payment include?
- 6.) How much cash will I need to purchase a home?
- 7.) As a first time home buyer, what steps should I take before I look for a home?

Q: How do I know how much house can I afford?

A: Generally speaking, you can purchase a home with a value of 2 to 3 times your annual household income. However, the amount that you can borrow will also depend upon your employment history, credit history, current savings and debts, and the amount of down payment you are willing to make. You may also be able to take advantage of special loan programs for first time home buyers to purchase a home with a higher value. Give us a call, and we can help you determine exactly how much you can afford.

Q: What is the difference between a fixed-rate loan and an adjustable-rate loan?

A: With a fixed-rate mortgage, the interest rate stays the same during the life of the loan. With an adjustable-rate mortgage (ARM), the interest changes periodically, typically in relation to an index. While the monthly payments that you make with a fixed-rate mortgage are stable, payments on an ARM loan will likely change. There are advantages and disadvantages to each type of mortgage, and the best way to select a loan product is by talking to us.

Q: How is an index and margin used in an ARM?

A: An index is an economic indicator that lenders use to set the interest rate for an ARM. Generally, the interest rate that you pay is a combination of the index rate and a pre-specified margin; this is referred to as the “fully-indexed rate”. Three commonly used indices are the One-Year Treasury Bill, the Cost of Funds of the 11th District Federal Home Loan Bank (COFI), and the London InterBank Offering Rate (LIBOR). All 3 indices can be found in the Wall Street Journal. **Note that some economic indicators may move slower than others, for example, the 12 Month Treasury Average (MTA) will move slower since it is a “rolling average” than other indices that are more volatile to market conditions.

Q: How do I know which type of mortgage is best for me?

A: There is no simple formula to determine the type of mortgage that is best for you. This choice depends on a number of factors, including your current financial picture and how long you intend to keep your house. Oak Valley Mortgage can help you evaluate your choices and help you make the most appropriate decision.

Q: What does my mortgage payment include?

A: For most homeowners, the monthly mortgage payments include three separate parts:

Principle: Repayment on the amount borrowed

Interest: Payment to the lender for the amount borrowed

Taxes & Insurance: Monthly payments are normally made into a special escrow account for items like hazard insurance and property taxes. This feature is sometimes optional, in which case the fees will be paid by you directly to the County Tax Assessor and property insurance company.

Homeowners Association Dues: If applicable

Q: How much cash will I need to purchase a home?

A: The amount of cash that is necessary depends on a number of items. Generally speaking, though, you will need to supply:

Earnest Money: The deposit that is supplied when you make an offer on the house.

Down Payment: A percentage of the cost of the home that is due at settlement. With a steady job and good credit, as little as 3% is needed.

Closing Costs: Costs associated with processing paperwork to purchase or refinance a house.

Oak Valley Mortgage also offers 100% financing loans which allow for up to 6% sellers concessions! Call us for details!

Q: As a first time home buyer, what steps should I take before I look for a home?

A: Meet with a mortgage broker to discuss how much home you can afford, complete an application, and get a pre-approval letter. This way when you bid on a home, it will carry more weight than an offer from someone lacking a letter! I also will assist you in narrowing the price range of homes that you can afford, thus allowing you to maximize your time in locating the right home for you!

Loan/Mortgage Information

There are literally hundreds of loan programs on the market today.

While we certainly don't want to overwhelm you with information, we do want our clients to be informed about the basic categories and options available to them.

If you need a little help understanding your options, this page will walk you through them.

- A Conventional Loan is by far the most common. With Conventional Loans, there are many loan programs offered. To begin to narrow the field, keep reading.

First, determine the AMOUNT of the loan. A loan for \$417,000 or less is called a Conforming Loan. An amount over \$417,000 is considered a Jumbo or Non-Conforming Loan.

The next category to consider is SOURCES OF INCOME AND ASSETS

- If your income and assets are from conventional sources that will be easy for the lender to verify and document, you will be getting what is called a Full Doc Loan.
- If your income and assets are from unusual sources that will be challenging to verify or document, your loan will be considered a No Doc/Stated Income/No

FIXED OR ADJUSTABLE/VARIABLE LOAN?

- Fixed Rate Loan whose monthly payment remains the same for the length of the loan (usually 15 or 30 years, and now 40 years)!
- Adjustable Rate Loan that has a lower starting monthly payment, after which the interest rate adjusts periodically. Using an ARM may qualify you for larger loan amounts!
- Both loan types offer an interest-only option, which will lower your monthly payments and increase your purchasing power, since you qualify at the lower monthly payment.

Adjustable rate loans (ARM's), come in a wide variety of kinds and combinations. The variables include the time the rate adjusts and how often the rate adjusts. These loans will have "periodic caps" and "lifetime caps", determining a set percent that the actual rate can increase to within a given period of time.

Deciding which type of rate (fixed or variable) to go with will depend on many factors, including how long you plan to stay in the home, whether your income is expected to rise or fall in the future, etc. This decision is best made with the input of your mortgage broker and should take into consideration your whole financial picture, including your short and long term goals.

In addition, Oak Valley Mortgage offers special programs which include:

- First Time Home Buyer Programs-offering lower down payments, often lower interest rates, and are usually easier to get qualified and approved.
- Investment Properties and Vacation Homes.
- Zero Down Programs..”Even with previous bankruptcies!
- Loan amounts up to \$5 million.

Down Payments: Oak Valley Mortgage offers many \$0 Down Home Loans, in addition to programs with as little as 3% down.

WHICH IS BEST?

The most common question mortgage customers have is: Which kind of loan is best for me? That is exactly the right question and the answer depends entirely on your individual situation, needs and expectations, and overall financial goals and plans. That is exactly why Oak Valley Mortgage believes a personal consultation with our clients is the only way to help them know which program is best for them. Please call us for more information at **530.592.8362**.



Top 12 Mistakes Made While Buying a Home

If you are like most people, purchasing a home is the biggest investment you'll ever make! If you are considering buying a home, you are likely aware of the complexity of the endeavor. Because of the numerous factors to consider when purchasing a home, it is important to prepare as best you can. Some common home buying principles are presented here for your consideration. By keeping them in mind, you will help create a successful and more enjoyable experience. Since your home could cost you 25 to 40 percent of your gross income, it is important to conduct research, ask questions and study the process carefully. **The following top 12 mistakes can be avoided!**

1.) Looking for a home without getting pre-approved.

As a potential buyer competing for a property, you will have a better chance of getting your offer accepted by being as prepared as possible. Consider this hierarchy of preparedness:

- **Neither pre-qualified nor pre-approved**
- **Pre-qualified**
- **Pre-approved**

The benefits available at each level can be easily understood when viewed from the seller's perspective. Imagine you are a seller in receipt of multiple offers to purchase your property. A complete stranger (buyer) is asking you to take your property off the market for at least the next two to three weeks while they apply for a loan. As the seller, let's consider the type of buyer you would prefer to deal with.

Neither pre-qualified nor pre-approved

This buyer provides no evidence that they can afford to purchase your property. You may wonder how serious they are since they are not at least pre-qualified.

Pre-qualified

This buyer has met with a mortgage broker (or lender), and discussed their situation. The buyer has informed the broker regarding their income, expenses, assets and liabilities. The broker may also have seen their credit report. The buyer provided you with a letter from the broker stating an opinion of what the buyer can afford.

Pre-approved

This buyer has provided a broker written evidence of income, expenses, assets, liabilities and credit. All information has been verified by a lender. As a result, much of the paperwork for this buyer's loan has been completed. This buyer will probably be able to close quickly. They provide you with a letter (pre-approval certificate) from the lender. You are as certain as possible that this buyer can close.

As a potential buyer, you can see that being pre-approved will give you the best chance of getting your offer accepted. **This is critical in a competitive situation!**

2.) Making Verbal Agreements.

If you're asked to sign a document containing instructions contrary to your verbal agreements—Don't! For example, the seller verbally agrees to include the washing machine in the sale, but the written purchase contract excludes it. The written contract will override the verbal contract. More importantly, your state may require the contracts for the sale of real property be in writing. Do not expect oral agreements to be enforceable.

3.) Choosing the lender just because they have the lowest rate.

While the rate is important, consider the total cost of your loan, including the APR, loan fees, discount and origination points. When receiving a quote from a lender or broker, insist that the discount points (charged by the lender to reduce the interest rate) be distinguished from origination points (charged for services rendered in originating the loan).

The cost of the mortgage, however, should not be your only criteria.. Have confidence that the company you select is reputable and will deliver the loan with the terms and costs they promised. If in the final hours of the transaction you determine that the lender has suddenly increased their profit margin at your expense, you won't have time to start again with a different lender. Ask family and friends for referrals. Interview prospective mortgage companies. Oak Valley Mortgage welcomes questions. We believe informed buyers make the best clients for a lifetime.

4.) Not receiving a Good Faith Estimate.

Within three business days after the broker or lender receives your loan application, you must receive a written statement of fees associated with the transaction. This is both the law and the best way to determine what you will pay for your loan. Bring the Good Faith Estimate (GFE) when you sign loan documents. You should not expect to pay fees which are substantially different from those contained in your GFE.

5.) Not getting a rate lock in writing.

When a mortgage company tells you they have locked your rate, get a written statement detailing the interest rate, the length of the rate lock, and program details.

6.) Using a dual agent—i.e.,an agent who represents the buyer and the seller in the same transaction.

Buyers and sellers have opposing interests. Sellers want to receive the highest price, buyers want to pay the lowest price. In the standard real estate transaction, the seller pays the real estate commission. When an agent represents both buyer and seller, the agent can tend to negotiate more vigorously on behalf of the seller. As a buyer, you are better off having an agent representing you exclusively. The only time you should consider a dual agent is when you get a price break. In that case, proceed cautiously and do your homework!

7.) Buying a home without professional inspections.

Unless you are buying a new home with warranties on most equipment, it is highly recommended that you get property, roof and termite inspections. This way you will know what you are buying. Inspection reports are great negotiating tools when asking the seller to make needed repairs. When a professional inspector recommends that certain repairs be done, the seller is more likely to agree to do them.

8.) Not shopping for home insurance until you are ready to close.

Start shopping for insurance as soon as you have an accepted offer. Many buyers wait until the last minute to get insurance and do not have time to shop around.

9.) Signing documents without reading them.

Whenever possible, review in advance the documents you will be signing. (Even though some specifics of your transaction may not be known early in the transaction, the documents you will sign are standard forms and are available for review.) It is unlikely that you will have sufficient time to read all the documents during the closing appointment.

10.) Creating delays within the transaction.

In a perfect world, all real estate transactions close on time. In the world we live in transactions are delayed a week or more. Suppose you asked your landlord to terminate your lease the day your purchase transaction was scheduled to close. A day or two before your scheduled closing date, you discover your transaction is delayed a week. In a perfect world, no one is inconvenienced and your landlord is willing to work with you. More likely, however, your landlord is inconvenienced and angry.

Will you be thrown out? Will you have to find interim housing for a week or more? The eviction process takes a little time, so the Sheriff won't immediately remove you, but this type of stress-producing episode can be avoided. How? Terminate your lease

one week after your real estate transaction is scheduled to close. That way, if there is a Delay in closing your transaction, you have some leeway. This approach might cost a Little more, then again, it might not!

11.) Taking out new loans before you have completed the loan process.

NEVER take out new loans to include either credit cards, car loans before you close on your purchase transaction! If your debt ratios are marginal to begin with, you could jeopardize your ability to close on your transaction and end up being either turned down or offered other options.

12.) Existing loan obligations.

ALWAYS continue to make your payments on existing debt as payments are scheduled. It is not uncommon that investors do a last minute audit that could result in an updated credit report being pulled. The last thing you want to do is to have any late payments pop up.

Should I pay points? Does a zeropoint/zero-fee loan really exist?



The best way to decide whether you should pay points or not is to perform a break-even analysis. This is done as follows:

- 1.) Calculate the cost of the points. **Note: 1 point is equivalent to 1 percent of the loan amount. Example: 2 points on a \$100,000 loan is \$2,000.

- 2.) Calculate the monthly savings on the loan as a result of obtaining a lower interest rate. Example: \$50 per month.

- 3.) Divide the cost of the points by the monthly savings to come up with the number of months to break even. In the above example, this number is 40 months. If you plan to keep the house for longer than the break-even number of months, then it makes sense to pay points; otherwise, it does not.

- 4.) The above calculation does not take into account the tax advantages of points. When you are buying a house the points you pay are tax-deductible, so you realize some savings immediately. On the other hand, when you get a lower payment, your tax deduction reduces! This makes it a little difficult to calculate the break-even time taking taxes into account. In the case of a refinance, the points are NOT tax-deductible, but have to be amortized over the life of the loan. This results in few tax benefits or none at all, so there is little or no effect on the time to break-even.

If none of the above makes sense, use this simple rule of thumb: If you plan to stay in the house for less than 3 years, do not pay points. If you plan to stay in the house for more than 5 years, pay 1 to 2 points. If you plan to stay in the house for between 3 and 5 years, it does not make a significant difference whether you pay points or not!

Zero-Point/Zero-Fee Loans

What happened to the conventional wisdom of waiting for the rates to drop 2% before refinancing?

You have a 30-year fixed loan at 8.5%. A loan officer calls you up and says they can refinance you to a rate of 8% with no points and no fees whatsoever.

What a dream come true! No appraisal fees, no title fees and not even any junk fees! Is this a deal too good to pass up? How can a bank and broker do this? Doesn't someone have to pay? Whose money is being used to pay these closing costs?

No---this is not a scam. Thousands of homeowners have refinanced using a zero-point/zero-fee loan. Some refinanced multiple times, riding rates all the way down the curve in 1992, 1993 and more recently, 1996. Some homeowners used zeropoint/zero-fee adjustable loans to refinance and get a new teaser rate every year. The way this works is based on rebate pricing, sometimes known as yield-spread pricing, and sometimes known as a service-release premium. The basic idea is that you pay a higher rate in exchange for cash up front, which is then used to pay the closing costs. You will pay a higher monthly payment—so the money is really coming from future payment you will make.

You can also think of this as negative points! For example a 30-year fixed loan may be available at a retail price of:

8% with 2 points or

8.25% with 1 point or

8.5% with 0 points or

8.75% with -1 point or

9% with -2 points

On a \$200,000 loan, the loan officer can offer you 8.75% with a cost of -1 point, which is a \$2,000 credit towards your closing costs. A mortgage broker can use rebate pricing to pay for your closing costs and keep the balance of the rebate as profit.

What are the benefits of a zero-point/zero-fee loan?

The main benefit is that you have no out-of-pocket costs. As a result, if the rates drop in the future, you could refinance again even for a small drop in rates. So if you refinanced on the zero-point/zero-fee loan to get a rate of 8.75% and if the rates drop

½%, you can refinance again to 8.25%. On the other hand, if you refinanced by paying 1 point and got a rate of 8.25, it may not make sense to refinance again. Now, if the rates drop another ½%, a zero-point/zero-fee loan eliminates the need to do a break-even analysis since there is no up-front expense that needs to be recovered. It also is a great way to take advantage of falling rates.

Some consumers have used zero-point/zero-fee loans on adjustable loans to refinance their adjustable every year and pay a very low teaser rate.

What are the disadvantages of a zero-point/zero-fee loan?

The main disadvantage is that you are paying a higher rate than you would be paying if you had paid points and closing costs. If you keep the loan for long enough, you will pay more—since you have higher mortgage payments. In the scenario where you plan to stay in the house for more than 5 years, and if rates never drop for you to refinance, you could wind up paying more money. If, on the other hand, you plan to stay at a property for just 2-3 years, there really is no disadvantage of a zero-point/zero-fee loan. You might as well keep the cash in your pocket.

Whose money is it?

Essentially, you are given a credit by the lender in exchange for a higher rate; it really is your own money that will be paid in the future through higher payments. Investors who fund these loans hope that you will keep the loans for long enough to recoup their up-front investment. If you refinance the loans early, both the servicer and the investor could lose money.

To summarize, zero-point/zero-fee loans in many cases are good deals. Make sure, however, that the lender pays for your closing costs from rebate points and NOT by increasing your loan amount. So, if your old loan amount was \$350,000, your new loan amount should also be \$350,000. You may have to come up with some money at closing for recurring costs (taxes, insurance, and interest), but you would have to pay for these whether you refinanced or not.

Zero-point/zero-fee loans are especially attractive when rates are declining or when you plan to sell your house in less than 2-3 years.

Zero-point/zero-fee loans may not be around forever. Lenders have discussed adding a pre-payment penalty to such loans; however, few lenders have taken steps to implement such a measure.

What is a FICO score?

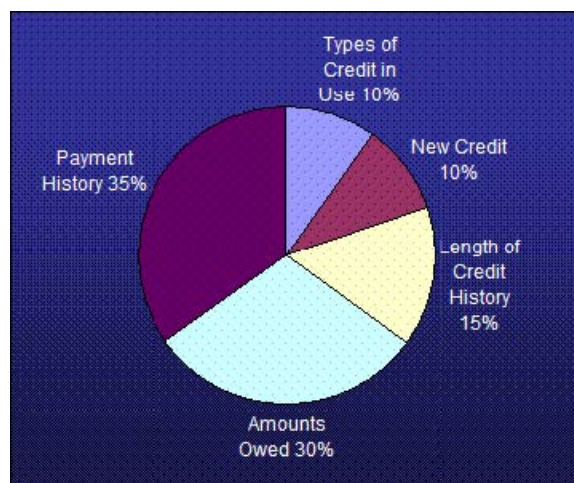
A FICO score is a credit score developed by Fair Isaac & Co. Credit scoring is a method of determining the likelihood that credit users will pay their bills. Fair Isaac

began its pioneering work with credit scoring in the late 1950's and, since then, scoring has become widely accepted by lenders as a reliable means of credit evaluation. A credit score attempts to condense a borrower's credit history into a single number. Fair, Isaac & Co. and the credit bureaus do not reveal how these scores are computed. The Federal Trade Commission has ruled this to be acceptable.

Credit scores are calculated using scoring models and mathematical tables that assign points for different pieces of information, which best predict future credit performance. Developing these models involves studying how thousands, even millions, of people have used credit. Score-model developers find predictive factors in the data that have proven to indicate future credit performance. Models can be developed from different sources of data. Credit-bureau models are developed from information in consumer credit-bureau reports.

Credit scores analyze a borrower's credit history considering numerous factors such as:

- Late Payments
- The amount of time credit has been established
- The amount of credit used versus the amount of credit available.
- Length of time at present residence
- Employment history
- Negative credit information such as bankruptcies, charge-offs, collections, etc.



There are really three FICO scores computed by data provided by each of the three bureaus. Experian, Trans Union and Equifax. Some lenders use one of these three, while other lenders may use the middle score.

What are the score ranges?

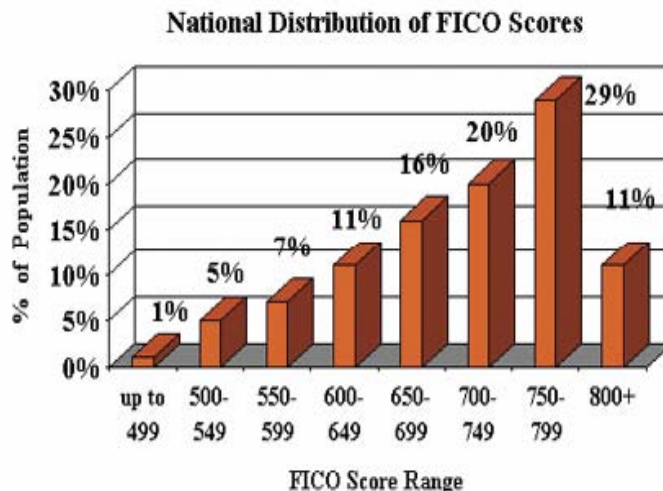
Low-----High
300 **850**
Bad **Excellent**

According to Experian, as of 5/11/07, the National Average Score is:

672

****Note: An updated figure can be found at <http://www.nationalscoreindex.com>**

Under new Federal Laws, you are entitled to receive 1 free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies—Equifax, Experian and TransUnion. For your convenience, I have included the form to be filled out and mailed in on the next page. Otherwise, you can fill out a request online at www.annualcreditreport.com or you can call their toll-free number at 1-877-322-8228.



Frequently Asked Credit Questions

Q: How can I increase my score?

A: While it is difficult to increase your score over the short run, here are some tips to increase your score over a period of time.

- Pay your bills on time. Late payments and collections can have a serious impact on your score.
- Do not apply for credit frequently. Having a large number of inquiries on your credit report can worsen your score.
- Reduce your credit-card balances. If you are “maxed” out on your credit cards, this will affect your credit score negatively.
- If you have limited credit, obtain additional credit. Not having sufficient credit can negatively impact your score.

Q: What if there is an error on my credit report?

A: If you see an error on your report, report it to a credit bureau. The three major bureaus in the U.S., **Equifax (1-800-685-1111)**, **Trans Union (1-800-888-4213)** and **Experian (1-888-397-3742)**, all have procedures for correcting information promptly. Alternatively, your mortgage company may help you correct this problem as well.

Oak Valley Mortgage has access to companies that offer “Rapid Rescore” options. This is a major advantage to working with Oak Valley Mortgage. While other mortgage companies may not have access to these tools, we can help you increase your score in the matter of days rather than months. Ultimately, this will get you into a better loan with a lower rate. Just ask us how!

What is the difference between pre-qualifying and pre-approval?

A pre-qualification is normally issued by a loan officer, who, after interviewing you, determines the dollar value of a loan you can be approved for. However, loan officers do not make the final approval, so a pre-qualification is not a commitment to lend. After the loan officer determines that you pre-qualify, she/he then issues you a pre-qualification letter. This pre-qualification letter is used when you are making an offer on a property. The pre-qualification letter indicates to the seller that you are qualified to purchase the house you are making an offer on.

Pre-approval is a step above pre-qualification. Pre-approval involves verifying your credit, down payment, employment history, etc. Your loan application is submitted to an underwriter with all required paperwork, and a decision is made regarding your loan application. If your loan is pre-approved, you are then issued a pre-approval certificate. Getting your loan pre-approved allows you to close very quickly when you do find a house. A pre-approval can help you negotiate a better price with the seller, since being pre-approved is very close to having cash in the bank to pay for the house!



What is an Annual Percentage Rate (APR)?

The annual percentage rate (APR) is an interest rate that is different from the note rate. It is commonly used to compare loan programs from different lenders. The Federal Truth in Lending law requires mortgage companies to disclose the APR when they advertise a rate. Typically, the APR is found next to the rate.

Example:

30-year fixed at 8% with 1 point = 8.107 APR

The APR does NOT affect your monthly payments. Your monthly payments are a function of the interest rate and the length of the loan.

The APR is a very confusing number! Even mortgage bankers and brokers admit it is confusing. The APR is designed to measure the “true cost of a loan”. It creates a level playing field for lenders. It prevents lenders from advertising a low rate and hiding fees.

If life were easy, all you would have to do is compare APRs from the lenders/brokers you are working with, then pick the easiest one and you would have the right loan. Right? Wrong!

Unfortunately, different lenders calculate APRs differently! So a loan with a lower APR is not necessarily a better rate. The best way to compare loans in the author's opinion is to ask lenders to provide you with a good-faith estimate of their costs on the same type of loan program (e.g. 30-year fixed) at the same interest rate. Then delete all fees that are independent of the loan such as homeowner's insurance, title fees, escrow fees attorney fees, etc. Now add up all the loan fees. The lender that has lower loan fees has a cheaper loan than the lender with higher loan fees.

The reason why APRs are confusing is because the rules to compute APR are not clearly defined!

What fees are included in the APR?

The following fees ARE generally included in the APR:

- Points-both discount points and origination points
- Pre-paid interest. The interest paid from the date the loan closes to the end of the month. Most mortgage companies assume 15 days of interest in their calculations. However, companies may use any number between 1 and 30!
- Loan-processing fee
- Underwriting fee
- Document-preparation fee
- Private mortgage-insurance

The following fees are SOMETIMES included in the APR:

- Loan Application fee
- Credit life insurance (insurance that pays off the mortgage in the event of a borrower's death)

The following fees are normally NOT included in the APR:

- Title or abstract fee
- Escrow fee
- Attorney fee
- Notary fee
- Document preparation (charged by the closing agent)
- Home inspection fees
- Recording fee
- Transfer taxes
- Credit reports
- Appraisal fee

An APR does not tell you how long your rate is locked for. A lender who offers you a 10-day rate lock may have a lower APR than a lender who offers you a 60-day rate lock!

Calculating APRs on adjustable and balloon loans is even more complex because future rates are unknown. The result is even more confusion about how lenders calculate APRs.

Do not attempt to compare a 30-year loan with a 15-year loan using their respective APRs. A 15-year loan may have a lower interest rate, but could have a higher APR, since the loan fees are amortized over a shorter period of time. "Compare apples to apples and oranges to oranges!"

Summary

Use the APR as a starting point to compare loans. The APR is a result of a complex calculation and not clearly defined. There is no substitute to getting a good-faith estimate from each lender to compare costs. Remember to exclude those costs that are independent of the loan.

Conclusion

This packet was provided by Scott Gormley, Broker/Owner of Oak Valley Mortgage and Beach Town Mortgage. I believe informing people like yourself of the tools available for homeownership is very important! Home ownership is one of the largest decisions you will make in your life and Oak Valley Mortgage would like the opportunity to participate in that event. If you have any questions at all, feel free to contact me or a representative of the company. Our philosophy is simple; provide each client with the best:

***Service *Knowledge *Results**



© Copyright 2007. All Rights Reserved. Reproduction of this packet in whole or part must have written permission by the author.